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UNCLAS SECTION 01 OF 02 MAPUTO 001174

SIPDIS

STATE FOR AF/S - BNEULING

USDA/FAS/EXPORT CREDITS FOR MCHAMBLISS

PRETORIA FOR AGRICULTURAL ATTACHE - SREYNOLDS, RBICKFORD

USDOC FOR AHILIGAS

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [MZ](#)

SUBJECT: MOZAMBIQUE: FY05 USDA FOOD ASSISTANCE TITLE I-FUNDED FOOD  
PROGRESS REQUEST

REF: STATE 172525

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REQUEST JUSTIFICATION  
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1. Although it still remains one of the poorest countries in Africa, Mozambique has been successful in its efforts to encourage economic growth, attract foreign investment, and revitalize several industries destroyed by the civil war. Mozambique's agricultural sector has vast potential, yet many factories sit idle and processing equipment is damaged and outdated. Several NGOs have provided business and technic support to promising agricultural sectors such as cashews, flowers, citrus fruit, and general horticulture. Although agricultural activity is increasing, the sector is operating far below its potential. The recent National Assessment of Poverty and Well-Being in Mozambique, conducted by the Ministry of Planning and Finance, indicated that 60% of the population still lives in poverty. With these levels of poverty improvements in the standards of living of the poor remain a central policy objective for the GRM. In this context, Title I is an important economic tool to help Mozambique achieve its goals in reducing absolute poverty by providing a government-to-government food donation and in turn, using the proceeds from sold commodities to improve access to rural financial services and expand income generating options for farmers living and working in rural areas. Receipt of Title I food commodities may bolster Mozambique's potential to develop its commercial markets, as the country undertakes measures to improve food security and agricultural development. Despite progress in increasing agricultural production, Mozambique still contains areas of food insecurity and as the World Food Programme indicates, one third of the population is classified as chronically food insecure.

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VALUE AND TYPE OF COMMODITY REQUESTED  
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2. Mission requests funding for PL 480 Title I-Funded Food for Progress grants of agricultural commodities, specifically \$5 million of crude sunflower oil.

3. Title I sales of this commodity to Mozambique would not disrupt normal world commercial trade.

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DESCRIPTION OF USE OF PROCEEDS  
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4. Title I commodities will be sold by the Ministry of Industry and Commerce (MIC). Ninety percent of the proceeds will be jointly programmed by MIC and USAID to support the Center for the Promotion of Rural Financial Services (CPSFR). This program works with existing financial institutions (commercial banks, leasing companies, microfinance institutions) to cover some of the costs associated with obtaining greater outreach in rural areas fostering access, competition, better services, and collection of domestic savings in the financial sector. Mozambican banks have little incentive to expand outreach in rural areas given the high costs of rural transactions and the possibility of making money on speculative transactions. With a goal towards building capacity in the rural finance sector, the CPSFR is designing and implementing pilot projects that expand the access to financial products in rural areas. Local stakeholders include the banks, leasing companies, micro finance institutions and NGOs, the Central Bank (Banco de Mocambique), the Ministry of Agriculture and Rural Development, the Ministry of Industry and Commerce (MIC), and the Ministry of Planning and Finance. The CPSFR has been successful in establishing guarantee funds to small-scale cashew processing plants and two local leasing companies (BIM Leasing and BCI Leasing). The Center is currently negotiating the extension of lines of credit for soya production. Additionally, it intends to provide credit funds to local commercial bank, Novo Banco, to expand its provision of financial services outside of Maputo (also under negotiation). The joint programming of money under this program contributes to commercial market development in Mozambique by promoting investments in high-growth industries such as horticulture, cashew, soya, and garments. The CPSFR is funded by the Act Reflow Account and Title III proceeds. Additional funding from Title I proceeds will strengthen the program's impact. The GRM, specifically the Minister of Industry and Commerce, Carlos Morgado, is highly supportive of the CPSFR program and is dedicated to joint-programming of Title I proceeds.

5. The remaining ten percent of the proceeds will be used to support USDA's collaborative research program. This program will facilitate research between US and Mozambican scientists on specific issues. Initial discussions with USDA (FAS Pretoria), identified areas for possible cooperation in improving quality control on Mozambican seafood.

exports and identifying ways to improve food security.

16. The GRM has demonstrated great interest in an FY05 Title I-Funded Food for Progress program, especially given that Mozambique did not receive Title I commodities in FY03 or FY04. Mission urges approval of this request, which we believe will program resources in a concerted and coordinated manner with other USG initiatives in support of expanding free enterprise in the agricultural sector.

17. This request has been coordinated with FAS Pretoria.  
LA LIME